

Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 IO-11 ISO-00 SP-02 AID-05 EB-07 NSC-05

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FM AMEMBASSY LONDON

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INFO AMEMBASSY BERN

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DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: ECON, UK

SUBJECT: CHANCELLOR LAUNCHES PROMISED EMPLOYMENT PACKAGE

REF: (A) LONDON 1596; (B) LONDON 14783, 9/24/75

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(C) LONDON 19841, 12/18/75

SUMMARY: FOR THE THIRD TIME SINCE SEPTEMBER, THE GOVERNMENT HAS RESPONDED TO INSISTENT PRESSURES TO REDUCE UNEMPLOYMENT, THIS TIME WITH A 215 MILLION POUND PACKAGE OF MEASURES AIMED AT PLUGGING OBVIOUS LEAKS IN THE DIKE WHILE DOING LITTLE TO PREVENT NATURAL FORCES FROM MOVING THE ECONOMY TOWARD A HEALTHIER CONDITION. THE NOW FAMILIAR ELEMENTS OF EMPLOYMENT SUBSIDIES, ADDITIONAL FUNDS FOR RETRAINING AND MORE LIBERAL GOVERNMENT INCENTIVES FOR INVESTMENT FORM THE CORE OF THIS PACKAGE. EARLY REACTION HAS BEEN FAVORABLE AND MEANS THAT THE GOVERNMENT HAS GAINED BREATHING SPACE UNTIL THE PRESENTATION OF THE APRIL 6 BUDGET. END SUMMARY.

1. AS PROMISED DURING THE JANUARY 29 PARLIAMENTARY DEBATE ON UNEMPLOYMENT (REF A), THE CHANCELLOR OF THE EXCHEQUER UNVEILED TO THE HOUSE OF COMMONS ON FEBRUARY 12 A SERIES OF MEASURES DESIGNED TO CURB UNEMPLOYMENT AND STIMULATE INVESTMENT.

2. THE TOTAL COST OF THE MEASURES IS PUT AT 215 MILLION POUNDS WITH THE NET IMOACTION ON EMPLOYMENT BEING ABOUT 70,000 ADDITIONAL JOBS OVER THE 12 MONTHS ENDING IN MARCH 1977. THE MAIN ELEMENTS OF THE PACKAGE ARE AS FOLLOWS:

DIRECT HELP TO JOBS AND TRAINING. A TOTAL OF 100 MILLION POUNDS IS TO BE SPENT FOR LIBERALIZING THE TEMPORARY EMPLOYMENT SUBSIDY BY INCREASING THE TIME LIMIT DURING WHICH IT MAY BE PAID FROM 6 MONTHS TO A YEAR, AND REDUCING FROM 25 TO 10 THE MINIMUM NUMBER OF WORKERS NEEDED TO QUALIFY FOR THE SUBSIDY; FOR THE FUNDING OF 35,000 EXTRA PLACES FOR JOB TRAINING; THE CONTINUATION OF THE 5-POUND PER WEEK RECRUITMENT SUBSIDY FOR SCHOOL LEAVERS; AND THE OUTRIGHT CREATION OF UP TO 25,000 NEW JOBS.

OFFICIAL INVESTMENT ASSISTANCE TO INDUSTRY. AN ADDITIONAL 55 MILLION POUNDS (18 MILLION TO BE SPENT IN THE 1976/77 FISCAL YEAR) WILL BE MADE AVAILABLE FOR MODERNIZATION AND RESTRUCTURING SCHEMES IN THE TEXTILE, MACHINE TOOL, FERROUS AND NON-FERROUS FOUNDRIES, AND PRINTING INDUSTRIES.

- GOVERNMENT ASSISTANCE TO CONSTRUCTION INDUSTRY.
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PUBLIC SECTOR HOUSING WILL BE GRANTED AN ADDITIONAL 50 MILLION POUNDS FOR NEW CONSTRUCTION.

- FINANCING OF INVENTORY ACCUMULATION OF MACHINE TOOLS. THE NATIONAL ENTERPRISE BOARD HAS BEEN DIRECTED TO ENTER INTO DISCUSSIONS WITH THE MACHINE TOOL INDUSTRY WITH A VIEW TOWARD ARRANGING FINANCING FOR A BUILD-UP OF MACHINE TOOL INVENTORIES BOTH AS A COUNTERCYCLICAL DEVICE AND AS A HEDGE AGAINST BOTTLENECKS WHICH ARE WONT TO

APPEAR IN THIS SECTOR AS RECOVERY GATHERS MOMENTUM.

3. THE CHANCELLOR'S PACKAGE WAS TAILORED TO APPEAL TO ALL ELEMENTS OF THE POLITICAL AND ECONOMIC SPECTRUM. ERIC HEFFER OF THE LEFT WING TRIBUNE GROUP OF THE LABOR PARTY SAID THAT THE PACKAGE WAS -MUCH BETTER THAN SOME OF US EXPECTED." THE TUC ALSO EXPRESSED SUPPORT FOR THE PROGRAM WITH DAVID LEA (TUC CHIEF ECONOMIST) STATING THAT HE HOPED THESE MEASURES WOULD BE CONSOLIDATED AND STRENGTHENED IN THE BUDGET. THE TORIES, IN THE PERSON OF SHADOW CHANCELLOR GEOFFREY HOWE, EXPRESSED RELIEF THAT THE GOVERNMENT HAS STOOD FIRM AGAINST PRESSURES FOR

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A LARGE FISCAL STIMULUS. FINALLY LIBERAL SPOKESMAN JOHN PARDOE WAS CRITICAL OF THE PACKAGE PROPOSING THAT THE CHANCELLOR PRESS FOR MORE REFLATION IN EXCHANGE FOR A MORE RESTRICTIVE SECOND PHASE OF INCOMES POLICY

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4. COMMENT. THIS IS THE THIRD SUCH PACKAGE TO BE ANNOUNCED BY THE GOVERNMENT SINCE SEPTEMBER 1975 (REFS B AND C). THE TOTAL AMOUNT OF NEW RESOURCES COMMITTED TO REDUCE UNEMPLOYMENT NOW STANDS AT OVER 400 MILLION POUNDS WITH ABOUT HALF THAT AMOUNT LIKELY TO BE DISPERSED BY THE END OF 1976. EACH PACKAGE HAS BEEN A VARIATION OF THE THEME OF SUBSIDIZING EMPLOYERS TO AVOID FURTHER LAYOFFS OR TO INDUCE HIRING OF SCHOOL LEAVERS, PROVIDING ADDITIONAL GOVERNMENT FUNDS TO COMPEL COMPANIES TO ADVANCE THE REALIZATION OF PLANNED INVESTMENT PROJECTS, ADDING SUBSTANTIAL RESOURCES TO MANPOWER TRAINING PROGRAMS, AND PROVIDING FUNDS FOR COUNTERCYCLICAL INVENTORY ACCUMULATION IN HARD HIT CAPITAL GOODS SECTORS. THE GOVERNMENT MAKES MUCH OF THE ARGUMENT THAT A PART OF THE ADDITIONAL RESOURCES WILL BE OFFSET THROUGH LOWER OUTLAYS ON INCOME MAINTENANCE PROGRAMS AND HIGHER INCOME TAX REVENUES. IN TERMS OF THE PUBLIC SECTOR BORROWING REQUIREMENT, THE ADDITIONAL SPENDING WILL ADD ABOUT 1.5 PERCENT TO THE DEFICIT AND CONSIDERABLY LESS THAN THAT TO THE OVERALL LEVEL OF PUBLIC EXPENDITURE.

IN ECONOMIC TERMS, THE PACKAGE FALLS FAR SHORT OF ANYTHING THAT COULD BE CHARACTERIZED AS GENERAL REFLATION. IN POLITICAL TERMS, THE GOVERNMENT HAS NOT JEOPARDIZED THE SUPPORT WHICH IT HAS ENJOYED SINCE THE INTRODUCTION OF THE ANTI-INFLATION PROGRAM. YET THERE IS LITTLE ROOM FOR COMPLACENCY ON THE PART OF THE GOVERNMENT. THE TUC IS BETTER SATISFIED WITH THE SIZE OF THE CURRENT PACKAGE, OVER TWICE THE 100 MILLION POUNDS WHICH HAD FIGURED IN EARLIER PRESS SPECULATION. NEVERTHELESS, REAL CONCERN PERSISTS AMONG SOME TUC LEADERS THAT THE GOVERNMENT WILL NOT BE ABLE TO PRODUCE THE GROWTH NEEDED TO BRING UNEMPLOYMENT DOWN TO THE TUC TARGET LEVEL OF 600,000 BY 1978. AS A RESULT, TUC PRESSURES ON THE GOVERNMENT CAN BE EXPECTED

TED TO INTENSIFY, COMPLICATING BOTH THE PREPARATION OF
THE BUDGET AND THE NEGOTIATION OF THE NEXT PHASE OF THE
INCOMES POLICY.
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